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FISCAL NOTES

A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts, May 2009

APRIL REVENUE (IN MILLIONS): SALES TAX: \$1,660.8 OIL PRODUCTION: \$52.3 NATURAL GAS: -\$5.0 MOTOR FUELS: \$259.7 MOTOR VEHICLE SALES: \$181.4 TOBACCO: \$114.6

Twittering Texas

Good news for social media fans:
The Texas Comptroller's new
Twitter feed provides real-time
“micro” updates on economic
news, features and data. Follow us
at www.twitter.com/txcomptroller.

Readers also can be notified
by e-mail when new issues of
Fiscal Notes, *Texas Rising*, *Texas
Innovator* and reports such as
Texas Works are published.
To sign up, visit www.window.state.tx.us/subscribe.



Photo courtesy of Apple



Downturn or upturn, Texas leaders want our state to be the most attractive in the country for businesses.

The traditional pros and cons still play a role when it comes to selecting a location: Are transportation routes readily available? Is the right site or building available at a good price? Is there a sufficient labor pool, training partner and affordable cost of living for the wages a company can afford to pay?

As Texas leaders have increasingly found, financial incentives can mean the difference

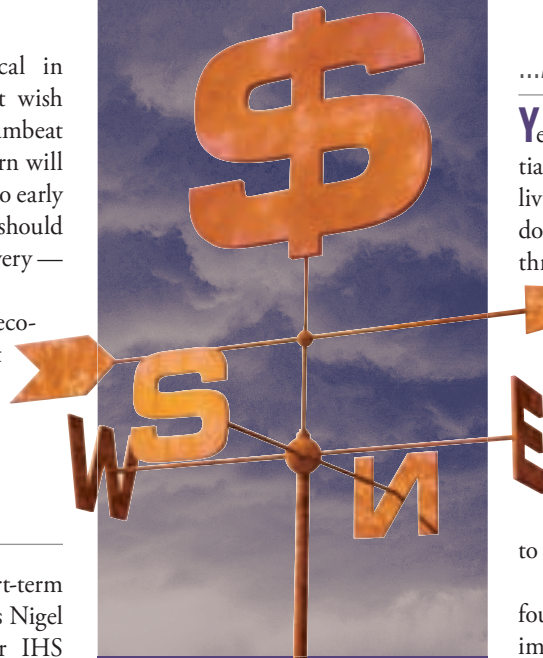
between companies choosing a Lone Star location or finding another state to do business. In its first five years, the Texas Enterprise Fund (TEF), an initiative of the Office of the Governor that supports the growth of Texas businesses, has funded or contracted for \$377 million in investment grants to 51 companies and institutions that pledged to create more than 52,000 jobs. The estimated \$14 billion capital investment needed to complete those projects is more than 37 times the taxpayers'

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This article is the fourth in a series of reports on the Texas economic climate.

To view previous reports, visit www.fiscalnotes.com.

Weathering the Storm



BATTEN THE HATCHES

BY BRUCE WRIGHT

Market economies are cyclical in nature, however much we might wish otherwise. Despite the current drumbeat of gloomy business news, an upturn will come sooner or later, and it's not too early to start thinking about how Texas should position itself to thrive in the recovery — whenever it arrives.

At the Comptroller's January economic summit, and in subsequent conversations with *Fiscal Notes*, three of the nation's top economists discuss the road ahead.

SHORT-TERM PAIN...

There's no denying that "the short-term outlook is extremely painful," says Nigel Gault, chief U.S. economist for IHS Global Insight. "We're witnessing the unwinding of the biggest housing and credit bubble ever, and on the global stage, the worst recession since the Second World War.

The worldwide slowdown has hit energy producers particularly hard.

"Pretty much every region around the world is contracting pretty sharply," Gault says, noting that South Korea's economy contracted by 5 percent in the fourth quarter of 2008 alone, while Japan suffered a 35 percent year-over-year drop in exports in December. Gault expects the U.S. economy to contract by 2.5 percent in 2009, in the steepest decline seen in about six decades.

In Texas, "the fact that there was no housing bubble meant that, in the early stages of the downturn, there was no direct fallout from what was going on in the rest of the country," Gault says. "But this crisis is now so broad, affecting so many sectors, and it's so global, that Texas can no longer stay immune."

The recession will have varying effects around the state, says Keith Phillips, a senior economist and policy advisor at the San Antonio branch of the Federal Reserve Bank of Dallas.

"Dallas has a 50 percent higher share of jobs in financial activities than the national average," Phillips says. "That means the city is very susceptible to the decline in the financial sector." A downturn in demand for high-technology exports, in turn, is likely to hit Austin. By contrast, "San Antonio has a lot of jobs in health care and the military — it's not very affected by business cycles," he says.

...AND LONG-TERM GAINS

Yet "Texas still has good long-term potential," says Phillips. "We have a low cost of living, and this is still a low-cost place to do business. Recessions happen. We'll get through this one."

Steven Cochrane, senior managing director at Moody's Economy.com, shares Phillips' optimism. "The problems in Texas are so much less severe than elsewhere," Cochrane says. While other states "are scrambling just to keep their heads above water, in Texas, it's just not that bad. This is a great time to be thinking long term."

And in that longer term, Cochrane sees four "driving" industries assuming prime importance in the Texas economy.

Medical services will benefit from "good, strong demand as our population grows and ages," Cochrane says. Banking can expect slow short-term growth because of a tighter regulatory environment, but the state's banks have avoided most of the problems plaguing

major national financial companies, and Texas will benefit from its position as banking center for the Southwest.

Companies involved in freight, logistics and domestic and global trade will do well over the long term. And technology-related industries are due for an expansion "once research and development spending gets back on its feet," Cochrane says, noting that investments in this area have lagged in recent years.

EXPORTS ONE KEY...

The worldwide slowdown has hit energy producers such as Texas particularly hard. "The states that were doing well [in 2008] were energy states, but they're all likely to turn downward this year," says Phillips. "The rig count is falling off a cliff."

And since petroleum products and chemicals, particularly petrochemicals, account for a full third of the state's goods sold internationally, "Texas exports show quite a sharp decline, even sharper than the U.S. average," Phillips says.

To Cochrane, this shows that Texas must "diversify its exports and export destinations, across the global economy" — an important mission for the nation's leading exporting state. Unsurprisingly, Mexico is by far our most significant trading partner at present, accounting for nearly a third of the state's exports, and Canada represents another 10 percent.

But Gault sees the most room for expansion in Asia. "Ten years from now, the Asia-Pacific region excluding Japan will

account for 26.7 percent of the world economy,” Gault says. “China alone will account for almost 15 percent. That’s where the market growth will be.”

Ultimately, “the U.S. is going to have to adjust to be less of a consuming economy and more of a producing economy,” Gault says. “And correspondingly, we see Asia transforming itself into more of a consuming region than in the past. We’ll have to shift more of our activity into exports.”

...AND WORK FORCE QUALITY ANOTHER

But the kind of exports that can fuel renewed prosperity in Texas and the U.S. will require a well-trained work force.

“The sort of jobs and opportunities we’ll create will be different from those in the past,” Gault says. “We can’t compete with the rest of the world purely on cost — there are lots of places that have lower wages. So our growth has to be concentrated in things that require more intellectual capital to produce.

“And that leads us to the importance of education,” he says. “We will need a highly skilled work force to produce goods and services that can compete in the global economy. We have to compete in the areas that need brainpower.

“For example, the U.S. is a leader in aircraft production and in many areas of pharmaceuticals,” says Gault, “and in the development stages of many types of computers and software. Now, the mass production phase gets moved off-shore, because you

“We have to compete in the areas that need brainpower.”

—Nigel Gault, chief economist, IHS Global Insight

In January, the Texas Comptroller hosted some of the brightest minds in business, economics and academia at the Texas to the Power of Tomorrow Summit (T²), a one-day conference of unprecedented analysis of the Texas economy. Stories in this issue feature T² speakers and their powerful analysis and insight. To view video of the day’s speakers, or to download their presentations, visit www.t2summit.org.



Nigel Gault, *left*, group managing director of North American macro-economics services at Global Insight. Keith R. Phillips, *middle*, senior economist and policy advisor for the Federal Reserve Bank of Dallas, San Antonio. Steven Cochrane, *right*, managing director of Moody’s Economy.com.

can do it more cheaply elsewhere. But the U.S. is much better equipped for initial development.

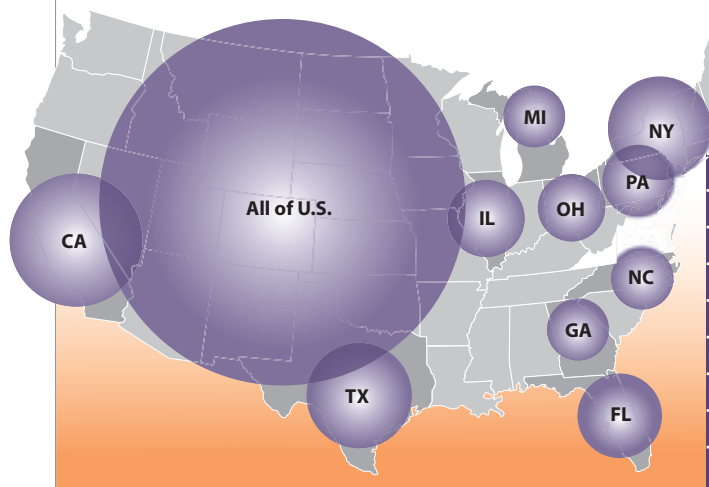
“I don’t think there’s a lack of areas to expand into, and many of them probably don’t even exist right now,” Gault says. “But we do know that we’re going to need intellectual skills and education.”

Texas workers are among the nation’s most productive, but Steven Cochrane sounds a cautionary note. While the average educational level of Texas workers has improved, he says, “*everyone* is improving. The competition is relentless and fierce.”

Work force quality, says Cochrane, “threatens the productivity growth that Texas has had for quite some time. If Texas doesn’t always strive not just to be better, but to be better than all the other states in the international markets, it could fall behind. And this is what it’s all about. Productivity means rising incomes and a more vibrant economy. This is really the bottom line.” **FN**

A PRODUCTIVE STATE

Texas’ continuing economic success will depend heavily on the quality of its workers, who are among the nation’s most productive.



Worker Productivity in the 10 Largest States, 2007

State	Gross Product, 2007 (millions)	Gross Product per Worker, 2007
New York	\$1,103,024	\$126,238.78
California	1,812,968	119,563.68
Texas	1,141,965	110,238.92
Illinois	609,570	101,910.92
U.S.	13,807,500	100,346.66
North Carolina	399,446	96,351.88
Georgia	396,504	95,612.25
Pennsylvania	531,110	91,637.05
Florida	734,519	91,342.18
Michigan	381,963	89,620.60
Ohio	466,309	85,965.08

Talent on their Doorstep

Photo courtesy of Scott & White



Scott & White offered skills and found a work force in its small Texas city.

Every big organization had small beginnings. For some, growth means leaving roots behind to serve a bigger market. Think H-E-B, which was founded in 1905 in Kerrville (current population 22,750), but moved its headquarters decades ago to San Antonio as it mushroomed from a single store to more than 300 grocery store locations in Texas and Mexico.

Scott & White Healthcare's roots are just a few years older, but while the original two-doctor practice has morphed into a huge nonprofit organization with more than 7,000 employees, including 700 staff physicians and research doctors, its headquarters still are in Temple, Texas' 45th largest city by population with about 55,000 residents. No longer is it simply doctors treating patients — now it's hospitals, regional clinics, a medical school, a health care plan and even a credit union — almost a city in itself.

CEO Dr. Alfred Knight says Scott & White has learned over the years to be aggressive about recruiting skilled staff and teaching its existing employees new skills to meet patient needs.

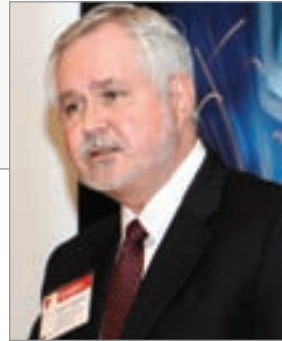
And from a small beginning, Scott & White has created a high demand for more workers throughout the area.

AGGRESSIVE RECRUITMENT

While jobs are disappearing throughout the economy, hospitals continue to hire. Throughout the spring, Scott & White's openings numbered 300 to 400. This is about half the openings during the same period in 2008, not because the number of employees is fewer, but because of changes implemented in the recruitment process. At about 17 percent, the

Watch video of Scott & White CEO Dr. Alfred Knight talking about the organization's growth in Central Texas by visiting www.t2summit.org.

Dr. Alfred B. Knight,
CEO at Scott & White
Healthcare



organization's employee turnover is below the 20 to 21 percent national average for health care, says Keith Minnis, Scott & White's director of recruiting and retention.

"We took a look at our career and job fairs. We discovered 90 percent of our media advertising efforts were newspaper-related and focused on Central Texas," he says. "This year, we began to market, advertise and physically go to career fairs in Kansas, Iowa and Oklahoma."

The application process — particularly online recruitment — and Scott & White's brand presence was expanded, too.

"A registered nurse [RN] can get a position in four days," Minnis says. "We know we have to get an application in front of the hiring manager today.

Otherwise we have lost that candidate. We have hardwired that process within the system to decrease our time to hire, time to fill and cost to hire."

Internal candidates also are given an opportunity to move up the organization's ladder — getting three days to apply for a job before it is advertised externally, he says.

"It's a strong message to our work force: we want to invest in you, and look to you before looking for external candidates," Minnis says.

GROWING YOUR OWN

Working with internal candidates has been key, according to Knight.

"We also learned at the very entry level in our organization that to entice a clerk to become a health care aide, then perhaps a licensed vocational nurse (LVN), then a RN, that they needed help while working full-time," he says. "We have many of our entry-level employees on a track where they can work full-time, gain the skills needed to move all the way through to a masters in nursing on-site, and utilizing our affiliations with many great community colleges and universities throughout the state."

Training medical staff comes in a broad range of programs: from entry-level medical care including certified medical associates (CMAs) and LVNs to degreed nurses through to physicians.

Mary Pat Lambden, academic advisor to students in the RN to Master of Science in Nursing program, says Scott & White is tightly allied to several nursing schools.

"We meet with them regularly," she says. "Knowing when you come here that you have tuition reimbursement enhances recruitment. We also have a career ladder where nurses can advance by meeting certain criteria."

Offering opportunities to advance skills and training has proved effective for recruiting nursing staff.

"We have internships for new graduates in many areas," Lambden says. "We provide new graduate nurses with continuing education and the necessary time where they can go from novice to more experienced in the clinical setting."

There are positions for health care professionals across the career ladder. At the entry level, Scott & White's hospitals and clinics compete with nursing home and private care operations for LVNs. In clinics scattered around Central Texas, the pace is more rapid than in nursing homes and similar facilities, making it tough to recruit nurses. So Scott & White has taken another route, collaborating with Temple College to train CMAs, who can perform a wider range of tasks than nursing aides.

"It's an expanded job for clinical areas," Lambden says. "During a 10-month online program, students do their didactic online and attend the clinic sessions on evenings or weekends, so they can continue working."

The inaugural CMA class — all existing Scott & White employees — is under way. The majority of students are clinical employees who will earn higher pay upon completion.

Knight says the health care industry will continue to grow and will change radically during the next decade.

"There's always going to be a need for the highest quality health care. It's pretty solid," he says. "Our approach to the work force is not to sit back and whine about not having quality, qualified employees."

Unusually, Scott & White is physician-led, and it is unique among Texas health care organizations in that it employs all of its physicians. Knight says the health care work force will continue to evolve to enhance patient care while

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Photo courtesy of Scott & White



SCOTT & WHITE HISTORY

Scott & White Memorial Hospital was established in 1897 by Drs. Arthur C. Scott, Sr. and Raleigh R. White, Jr.

They also established a school of nursing there and continued to provide services for railroad workers. The hospital was first called Temple Sanitarium, but in 1922 the name was changed to Scott & White Hospital. It was converted to a nonprofit foundation on Dec. 23, 1949.

In December 1963, it moved to its present location, a 636-bed hospital and clinic, and has grown to fill more than one million square feet of space. Scott & White's 50 satellite clinics span eight counties throughout Central Texas, making it the state's largest multi-specialty group practice.

Drawing A Crowd



the odds of winning a prize from a \$2 scratch off is about 1 in 4.3,

whereas the odds of winning on a \$20 scratch off is one in about 2.9.

Lottery buyers, however, have upped the ante at the Pure Country Convenience Store near Whitsett, about 60 miles south of San Antonio, where lottery sales have soared.

"We used to sell a \$50 scratch-off ticket every so often, but now we're selling three or four a day," says Karen Weber, the store's manager.

Lottery ticket sales revenue at the store averaged about \$4,700 each week last spring, but had increased by at least 25 percent as of March.

LEAVING IT TO CHANCE

For lottery player Ben Jones of Dallas, the prospect of claiming part of a Mega Millions jackpot has motivated him to purchase tickets every Tuesday and Friday for the past four years.

"I don't play for fun," Jones says. "I play to win."

Jones and a group of 27 co-workers he plays with have won \$150, but other than that the jackpot has been elusive.

Ike rendered 4,616 of 5,051 lottery terminals in the Houston district inactive, according to Texas Lottery officials. The area, the largest district of

Texas Lottery Weathers Economic Changes

Months before Hurricane Ike dealt its blow to Texas Lottery sales, a national economic storm loomed.

Growing consumer uncertainty and a decline in discretionary spending contributed to a 2.7 percent drop in lottery sales for fiscal 2008, and is partly to blame for a 2.1 percent slide for the first half of fiscal 2009. While Texas Lottery Commission officials have not formally studied the impact of the nation's lingering economic crisis on ticket sales, vendors have noticed a shift in consumer demand.

"Sales were OK during the holidays because people were buying lottery tickets as stocking stuffers and buying them as gifts," says Amy Tran, manager for the A&B Corner Foodmart in Round Rock. "But now, ticket sales have really slowed down."

Even the store's regular lottery players have altered their strategies due to the economic climate.

"Instead of buying one \$20 scratch-off, they buy 10 \$2 tickets because they think they'll have more chances of winning," she says.

Odds of winning vary by game, but

LOTTERY NUMBERS

During its 17-year history, the Texas Lottery has increased its sales, prizes and contributions to education funding. About 76 percent of its sales comes from scratch-off tickets, which cost from \$1 to \$50.

Fiscal Years	Lottery Sales (in billions)	Prize Payout Percentage	Foundation School Fund Contribution (in billions)
2002	\$2.97	57.8%	\$0.869
2003	3.13	58.9	0.888
2004	3.44	59.3	1.003
2005	3.66	60.8	1.016
2006	3.78	61.2	1.030
2007	3.77	61.3	1.032
2008	3.67	62.1	0.983
2009	3.64*	n/a	0.963*

* Based on Based on Comptrollers Biennial Revenue Estimate 2010-2011
Source: Texas Lottery Commission

In Perspective: Texas and the New Global Economy

SCOTT & WHITE, CONTINUED FROM PAGE 5

10 in the state, houses approximately 30 percent of the state's lottery vendors. As of March 13, 2009, only 39 terminals remained inactive.

Although the hurricane magnified the state's sales slump, Texas was not alone in its losses. Lottery sales nationwide decreased by about \$215 million, or nearly 2 percent, from July through September 2008 compared with the same period in 2007.

EBB AND FLOW

When lottery sales rise and decline, Texans might wonder how the change affects education funding.

The Foundation School Fund (FSF) totaled about \$20.7 billion in fiscal 2009. The lottery's current annual contribution to the FSF is targeted at \$1 billion and from fiscal 2003 to 2007 it exceeded that target. When the funds total less than \$1 billion, money from the state's General Fund is used to make up the shortfall. As of Feb. 28, about \$467.4 million from lottery proceeds has been transferred to the fund, compared with \$466.4 million for the same period in fiscal 2008.

Texas Lottery contributions to the FSF should total \$1.9 billion for the 2008-2009 budget period, 5.8 percent less than in the previous biennium. The lottery expects its FSF contributions to decline by another 3.1 percent during 2010-2011, due to product line maturity, resulting in a \$120 million shortfall in the FSF. This shortfall will be covered by general revenue, in an amount equivalent to about 0.155 percent of the general revenue fund. **FN**

For more information on the Texas Lottery, visit www.txlottery.org.

finding new efficiencies.

"To do that the work force must change," he says. "It has to be elevated in sophisticated ways."

That has meant adding partnerships over the years. Scott & White partners with Texas A&M's Health Science Center College of Medicine to train physicians at its four-year medical school. A new partnership recently was signed with the University of Texas at Arlington for Scott & White staff to receive a discounted tuition rate in the RN to BSN program.

Sharing skills benefits Scott & White over time, too.

"We participate in a faculty-sharing program: employees who work here and teach at University of Mary Hardin-Baylor, Temple College and Central Texas College in Killeen, which houses Tarleton State University's Central Texas campus," Lambden says. "They have added an RN to BSN completion program serving approximately 400 students per semester."

PREPARING FUTURE SCIENTISTS

Training isn't reserved for Scott & White's employees. A partnership with Temple College, the Temple Health and Bioscience District, area school districts and others has led to the creation of the Texas Bioscience Institute where students can study an enriched curriculum in math and science beginning in their junior year of high school.

"They also can do on-the-job training in our research labs," Knight says. "At the end of two years, these students can have two years of college credits, an associate degree and a high school degree. There's a waiting list for this kind of opportunity." **FN**

Find out more about Scott & White's educational opportunities at www.sw.org.

Learn about the Texas Bioscience Institute at www.texasbioscienceinstitute.com.

Globally, there are 180 emerging markets. Four of these are especially significant — Brazil, Russia, India and China (BRIC). Social and economic growth in these countries is having a big impact on business, to say the least.

"At the end of the Gulf War in 1991, 55 percent of the top 20 energy companies were American and 45 percent were European," says Patricia Dinneen, managing director of Siguler Guff and one of the featured speakers at the Comptroller's T² Summit in January. "The BRICs have now taken a huge role in that — 35 percent. It's not just oil and natural gas — it's wind and solar and it's ethanol. There's a crying need for energy to fuel these economies."

Texas, with strong roots in energy, semiconductors and agriculture, remains a major player in the world trade scene. But how has global growth impacted Texas? Dinneen points to agriculture as an example:

"India, Brazil and China now have the largest cattle herds worldwide — 607 million animals versus 97 million in the U.S., most of which is in Texas." **FN**

—Michael Castellon

Patricia M. Dinneen,
managing director of
Siguler Guff



Take It Interactive

Learn more about the evolution of the global economy by viewing Patricia Dinneen's T² Summit video online at www.t2summit.org.

Did You Know?
Since 1997,
the Texas Lottery
has contributed
\$11 billion to
state education.

Spurring Business Growth

CONTINUED FROM PAGE 1

share, which is allocated by the governor, lieutenant governor and house speaker.

With its emphasis on long-term job creation, TEF grants have been awarded to a wide range of companies — from poultry processors to high-tech companies such as Rackspace Hosting. A leader in “cloud computing,” San Antonio-based Rackspace hosts Web sites, databases, e-mail and acts as a storage backup for clients in 50 countries. At the end of 2008, Rackspace’s work force was slightly more than 2,600 “rackers,” as its employees are known.

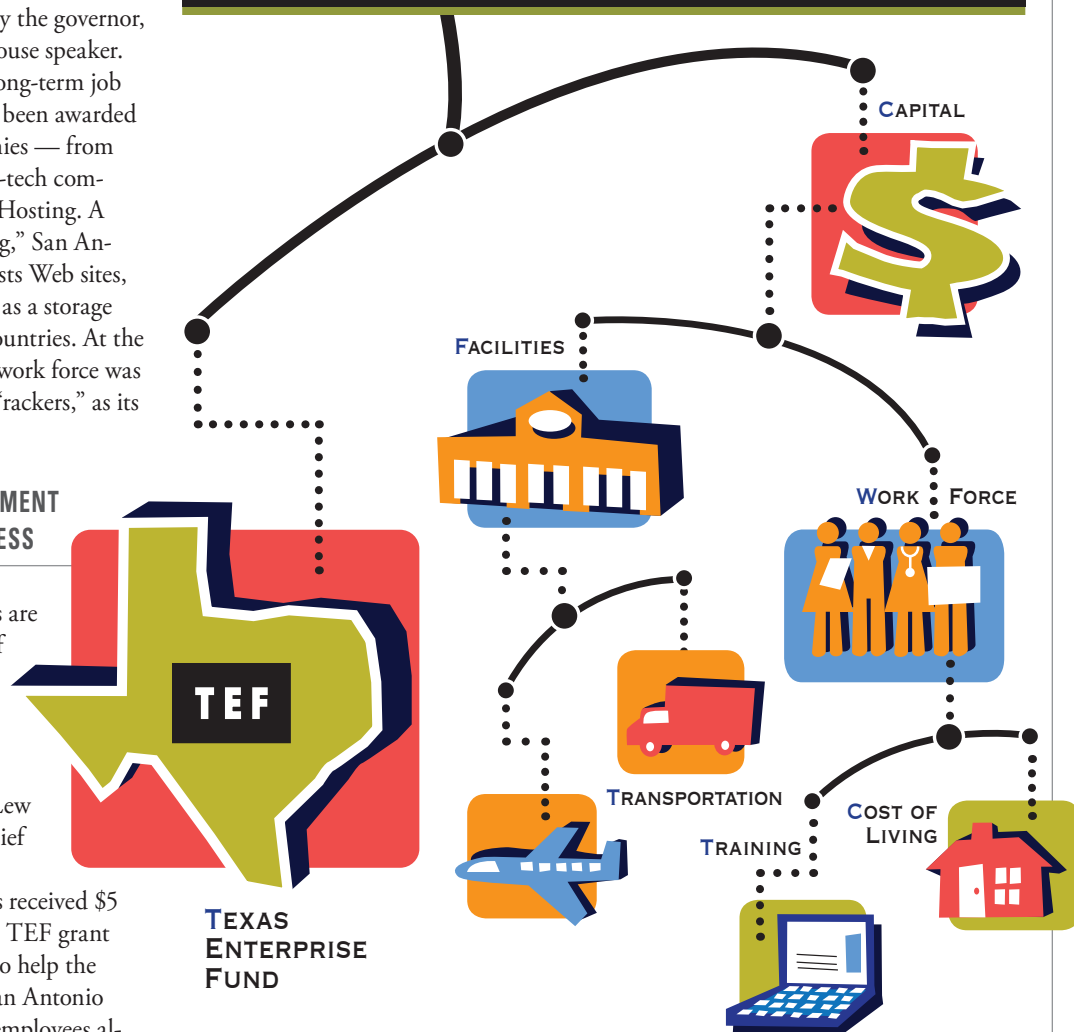
INCENTIVES ARE INVESTMENT IN HOME-GROWN BUSINESS

“Eighty percent of our jobs are in Texas and 90 percent of the revenue comes from outside of Texas, so it’s a huge transfer of wealth into the state, which is a phenomenal thing,” says Lew Moorman, Rackspace’s chief strategy officer.

To date, Rackspace has received \$5 million of the \$22 million TEF grant awarded in August 2007 to help the company expand in the San Antonio area. Moorman says 600 employees already operate out of the first building renovated — a former Mervyn’s store — and up to 5,000 people could ultimately work at the site, breathing new life into more than 1 million square feet of shuttered retail premises at Windsor Park Mall. Most of the company’s new hires come from within Texas — just 11 percent relocated to here in 2008.

According to the Texas Governor’s office, which administers TEF funds, Rackspace’s total investment at the site is projected at \$111.39 million. Julie Rabeux, business research manager in the Governor’s Economic Development and Tourism division, says Rackspace’s TEF funds are slated for four installments paid as the company adds to its work force.

TIPPING THE BALANCE FOR LOCATING COMPANIES



The company also was aided by a \$4.5 million Texas Workforce Commission Skills Development Fund (SDF) training grant and a valuable 100 percent, 14-year avoidance of city, county, school and community college district taxes.

Rackspace officials say the SDF grant is training employees while developing Alamo College’s instructors.

“The primary purpose of the grant is to improve the Alamo College’s ability to teach IT,” says Rackspace’s Senior Training Manager Duane LaBom. “To do this, many Rackers will receive training in different areas, technical and non-technical.”

AT A GLANCE

The Texas Enterprise Fund (TEF) is the largest “deal-closing” fund of its kind in the nation and is used to attract businesses and jobs to Texas. The TEF can be used for a variety of economic development projects, including infrastructure development, community development, job training programs and business incentives. Since 2004, \$377 million has been allocated, leading to commitments to create 53,389 jobs.

See how **Rackspace** used incentives to become a major player in San Antonio. Check out video from Lew Moorman's T² Summit presentation online at www.t2summit.org.

Lew Moorman,
chief strategy officer,
Rackspace Hosting



"Eighty percent of our jobs are in Texas and 90 percent of the revenue comes from outside of Texas, so it's a huge transfer of wealth into the state, which is a phenomenal thing."

— Lew Moorman,
chief strategy officer, Rackspace

expected to top \$7 billion. In all, Harris says, Motiva negotiated contracts with six taxing districts.

Motiva's capital investment is huge, creating thousands of construction jobs, filling hotel rooms with workers and generally providing an economic boon for Port Arthur during the multi-year construction period. When the plant is at full capacity and processing

CONTINUED ON PAGE 11

According to Windcrest Economic Development Director Ray Watson, the property tax avoidance — and sales tax savings on equipment and materials used in renovations — were made possible when ownership of the 68-acre mall property was transferred to Windcrest Economic Development Corporation, a 4B sales tax recipient. Walzem Road served as the boundary between the cities of San Antonio and Windcrest, with the mall on San Antonio's side until 2007, when it was transferred to the suburban community.

Watson says the loss of Windsor Park Mall hit businesses hard on both sides of Walzem Road. San Antonio and Windcrest lost sales tax revenues when many businesses closed after the mall's demise.

"Once the mall closed, it dominoed across the area," he says. "We were losing about \$100,000 a year in sales tax."

Watson says initially Windcrest and San Antonio were rivals in the bid to retain Rackspace in Bexar County, but pushed by County Judge Nelson Wolff, the property tax incentive benefit of transferring the mall property to a 4B corporation gave Windcrest a card that San Antonio didn't have to play.

"It helped keep Rackspace in the San Antonio area and it was beneficial to everyone," Watson says.

San Antonio and Windcrest will benefit equally by sharing municipal sales tax receipts generated by Rackspace. The northeast area of Bexar County will continue to benefit from the influx of an expected 5,000 or more employees. A new "urbanist community" is planned for the 140-acre property adjacent to the Rackspace headquarters and will offer diverse housing, entertainment and dining options for the entire area.

The second 85,000-square-foot phase of redevelopment at Rackspace's Windcrest site is under way. Company officials say plans to convert the former mall are on schedule and that future pace will be dictated by the company's growth.

HUGE INVESTMENT REQUIRES LOCAL COMMITMENT

When Motiva Enterprises started thinking about where to locate a multi-billion refinery expansion earlier this decade, its choices were limited to two states where it already has operations — Louisiana and Texas.

In the Bayou State, the incentives were already on the table: a potential 10-year, 100 percent property tax incentive for manufacturing businesses, says Danny Harris, a Motiva Oil real estate advisor who worked with local and state governments to obtain incentive packages.

"We needed to level the tax playing field with Louisiana and Texas didn't have a one-stop shopping place for local tax incentives like Louisiana," he says. "We started our meetings with the Governor's Office and, ultimately, we had to negotiate incentive packages directly with each taxing jurisdiction."

Out of those negotiations came an agreement with Port Arthur Independent School District that ultimately let school districts tax qualified properties to a certain value. In Port Arthur ISD, the value cap is \$30 million, a fraction of the \$3 billion capital investment that Motiva initially projected. When the expansion was given the green light, the costs were

The Texas Enterprise Fund
awards grants to entice businesses that will bring new jobs to Texas communities.

THE DEAL-CLOSING FUND

\$	Grants under contract	\$365,623,392
\$	Grants awarded*	\$377,036,392
\$	Capital investment	\$14,029,261,913
\$	Funds disbursed	\$332,628,196
👥	Jobs pledged	52,051
👥	Jobs reported	23,342
🏢	No. of contracted projects	51

* Hewlett-Packard and Maxim Integrated Products refunded \$5 million in grants.
Source: Texas Governor's Office

Promising Stability

Avoiding Layoffs in a Downturn

Without waiting for stimulus benefits, some Texas companies make it a point to ensure that their work force continues doing just that: working.

Texas-based Southwest Airlines has never had an involuntary work force reduction in almost 40 years. And Toyota Motor Manufacturing of Texas' San Antonio plant, which produces the popular Toyota Tundra pickup truck, is taking steps to keep its work force intact while production is slowed.

"...for us, involuntary layoffs are an absolute last resort."

— Brandy King, Southwest Airlines

Few take that task as seriously as Dallas-based Southwest Airlines. The air carrier began flying in 1971 and has survived fuel crunches, economic slowdowns and the months following 9/11 without the need for an involuntary work reduction.

"It's not that we have a specific policy against it, but we've just always put our employees first," says Brandy King, public relations manager for Southwest. "Our commitment has always been to keep our costs low and stay profitable, which allows us to provide job security and a great place to work for our employees."

Southwest founder Herb Kelleher even once sold an aircraft in order to meet payroll in the carrier's early days. Fuel hedges have also helped the carrier through times of turbulent fuel prices.

The carrier, which had a net income of \$645 million in 2007, employs more than 35,000 people throughout its system and operates more than 3,300 flights daily to 64 destinations.

Like other companies, Southwest has periodically offered incentives through voluntary separation packages for employees who were ready to make a change. But Southwest has never mandated a layoff.

More recently, the carrier has tweaked its boarding procedures and offered incentives to customers.

"We've kind of gone the opposite way of other carriers in not charging fees for extra things such as pillows or a soft drink," says King. "We're constantly looking for options like that in tough economic times, because for us, involuntary layoffs are an absolute last resort."

TEXAS KEEPS TRUCKING

Toyota's San Antonio facility rolled out the first of the company's popular Tundra truck series in November 2006. The facility directly employs about 2,000 Texans and another 2,200 through on-site suppliers. But the manufacturer is

not immune to the slower economy, says Zoé Zeigler, a spokeswoman at Toyota.

"Even during this time, our associates and team members remain our most important asset," she says.

Toyota has already curtailed marketing and travel costs, eliminated overtime and implemented other cost-saving measures to ensure its employees are affected as little as possible.

In San Antonio, where 200,000 trucks are produced annually, production has slowed.

"High fuel prices in 2008, and then later the economic recession, have hurt sales of all vehicles in the U.S., and the Tundra is no exception," says Mike De La Garza, manager of external affairs and corporate services for the San Antonio facility. "Currently, we're producing less than half of maximum capacity. Obviously, our hope is that sales will resume."

To cope with slowing sales, the plant has combined its two shifts into one and rotates workers into improvement projects and training sessions.

"From our perspective, this investment pays off tenfold." De La Garza says. **FN**

Texas employment indicators are available online at www.texasahead.org.

Photo courtesy of Toyota



Photo courtesy of Southwest Airlines



SPURRING GROWTH, CONTINUED FROM PAGE 9

600,000 barrels of oil per day, up to 300 additional permanent workers will be employed there.

Despite its massive capital investment, Motiva is eligible for a relatively small TEF grant — \$2 million compared to Rackspace's \$22 million. However, the refinery is poised to save millions on local property taxes. The expansion's completion has been pushed back until the first quarter of 2012, says Motiva spokesman Stan Mays. Lower refinery margins and consumer demand for gasoline in 2008 prompted Motiva to affirm its commitment to the project but revise its aggressive completion schedule in a bid to keep costs in line.

HOW DO TEXANS BENEFIT?

If companies are not paying their full tax levy on property and sales taxes, on the surface the community appears to be losing large streams of potential revenue. Not so, according to proponents of economic development.

Former Texas Secretary of State Phil Wilson says incentives are targeted to companies that can provide a ripple effect.

"So by getting a Motiva or Rackspace and the jobs associated with them, whether it's construction or long-term permanent employment, you then have the ability to amplify that to the overall economy," he says. "[Don't look at it] as 'what am I giving away,' but 'what am I getting?' Then you really can have tremendous things happen for your local community, for your county and for the state."

Harris says when Motiva was negotiating incentives, the company was asked to use local labor and contractors as much as possible.

Port Arthur Chamber of Commerce President Mary Ann Reid says Motiva worked well with local contractors helping them form alliances and partnerships to work on the expansion. A consortium was created to allow independent dump truck owner-operators from the Port Arthur area an opportunity to bid on a



AT A GLANCE

The Texas Emerging Technology Fund was created by the Texas Legislature to allow Texas to expedite the development and commercialization of new technologies and recruit the best research talent in the world. More than \$250 million has been allocated to date.

Motiva contract. The 100-strong group members remain independent operators, but working together, they won the contract.

"It's had a huge impact on the economy over there," Harris says. At the original estimated project price tag, the economic impact was estimated at \$20 billion over 20 years, a number that he says definitely will increase as project costs rise.

"I'm not sure too much bad comes with a \$6 billion or \$7 billion expansion," says Port Arthur City Manager Steve Fitzgibbons. In fiscal 2009, Motiva made an in-lieu-of-taxes payment of \$3.3 million. For the next three fiscal years, that payment will be \$4.3 million, rising to \$7.3 million in fiscal 2013 in recognition of the refinery's increased value. Port Arthur doesn't supply city services — other than water and sewer, for which Motiva pays 50 percent more than if it

were in the city limits — but yields about 10 percent of its general fund revenue from the refinery.

"Having a company commit to a \$6 billion or \$7 billion expansion, in addition to the economic development that one of the biggest investments in the country brings, that's something we're certainly very glad is happening here," Fitzgibbons says. **FN**

For more information about the Motiva Refinery Project, visit www.motivaexpansionproject.com.

Learn about the Texas Enterprise Fund and other state economic incentives at www.governor.state.tx.us.

ON THE MONEY:

The Federal Stimulus

Check out **Laylan Copelin's** column "On the Money," a conversation about federal stimulus money and how it's being spent in Texas, exclusively at www.window.state.tx.us/recovery/onthemoney.

Brief Bytes



TEXAS RACKS UP FOUR ENERGY STAR AWARDS

Four major Texas cities appeared on the U.S. Environmental Protection Agency's (EPA) list of the top 25 cities with the most Energy Star qualified buildings in 2008.

Houston, Dallas-Fort Worth, Austin and San Antonio were among the 25 metropolitan areas on the list. Houston was third on the list with a total of 145 buildings and a cost savings of \$70.6 million. Dallas ranked fifth with 126 buildings; Austin, 13th with 77 buildings; while San Antonio ranked 16th with 56 buildings.

"Texas is big into Energy Star and it has certainly helped with creating jobs and increasing energy awareness," says Patrick Kelly, the Region Six liaison for the EPA's Climate Protection Program office.

Texas' Energy Star certified and labeled buildings had total savings of \$130.7 million.

To learn more about energy conservation funding and incentives in Texas, visit the State Energy Conservation Office at www.seco.cpa.state.tx.us.

(Toree Roy)

UT VICE PROVOST SAYS EDUCATION NEEDS TO BE WORK FORCE RELEVANT

Courses that provide students with quantitative and scientific skills that directly articulate with work force training programs need to be made more widely available in Texas, says Harrison Keller, University of Texas vice provost for higher education and research.

"I think the Comptroller is exactly right calling for a new strategic vision in the way we approach these issues," Keller says. "Over the last 10 years, we've been focused to adding rigor to our curriculum. Where we need to go is how we have rigorous courses that are relevant to student's interest."

"We've been focused on traditional math and science course options," Keller says. "What's been notably missing are courses that focus on skills that are relevant to our work force needs."

Visit www.t2summit.org to watch video of Harrison Keller discussing education and the Texas work force.

(Gerard MacCrossan)



TEXAS STILL THE BEST FOR BUSINESS

With unemployment rates rising across the nation, CEOs still rate Texas as the best place to do business.

Texas maintained its top spot on *Chief Executive* magazine's annual ranking for the fourth year in a row. The magazine's "Best and Worst States" survey asked 543 CEOs to evaluate their states on a broad range of issues, including proximity to resources, regulation, tax policies, education, quality of living and infrastructure. CEOs were also asked to grade each state based on taxation and regulation, work force quality and living environment.

Texas earned first place rankings for its transportation and economy. The state's

access to capital and its technology and innovation also earned praise in the survey.

Following Texas as the best states to do business were North Carolina, Florida, Georgia and Tennessee. For the fourth year in a row, California and New York ranked as the worst and

second worst states to do business. Michigan, New Jersey and Massachusetts followed as the worst states for business.

For more information or to read the complete survey, visit *Chief Executive* magazine at www.chiefexecutive.net.

(Karen Hudgins)





URBAN POPULATIONS BOOMED IN 2008

The Austin-Round Rock area was the nation's second-fastest growing metro area between 2007 and 2008, according to a recent report by the U.S. Census Bureau.

The Austin-Round Rock population rose by an estimated 3.8 percent between July 1, 2007 and July 1, 2008, reaching a total of about 1.7 million. The Austin area ranked second behind Raleigh-Cary, N.C., which grew by 4.3 percent.

In terms of numeric growth, Dallas-Fort Worth and Houston ranked

first and second nationally in 2008, adding 147,000 and 130,000 residents, respectively.

The Census Bureau also reported that Texas led the nation in terms of county population growth between 2007 and 2008, with 19 of the 100 fastest-growing counties, more than any other state.

For more information, visit the U.S. Census Bureau's Web site at www.census.gov/Press-Release/www/releases/archives/population/013426.html.

(Bruce Wright)

TEXAS HOME TO A QUARTER OF THE U.S. MEXICAN-ORIGIN POPULATION

Texas is one of just two U.S. states in which persons of Mexican origin make up more than a quarter of the total population, a recent Census Bureau report notes.

In 2007, Texas had 7.28 million residents of Mexican origin, a total second only to California's 10.97 million. Texas' Mexican-origin population accounted for 24.9 percent of the U.S. total.

For more information, visit the U.S. Census Bureau's Web site at www.census.gov.

(Bruce Wright)

TEXAS TOURISM STAYS STRONG

The state's hotel occupancy tax is expected to grow by just 1.9 percent in the 2010-2011 biennium and may decline in fiscal 2009, but Texas remains a popular destination even in a sluggish economy.

According to the Comptroller's office, at the end of February 2009, \$173 million in hotel occupancy taxes had been collected, ahead of the \$169 million collected in the same period ending in February 2008.

Texas destinations and their host cities often offer incentives to travelers, including free meals, accommodations and gas cards.



"With summer travel coming, you'll see a whole different type of packaging coming out with more family-oriented offers," says Julie Chase, director of the Governor's Office of Economic Development and Tourism (EDT).

Orders for the printed Texas State Travel Guide also have increased by almost 60 percent through February 2009. International orders for the guide have increased by more than 260 percent.

Travel package listings and more information on Texas destinations are available on the EDT's Web site at www.traveltex.com.

(Clint Shields)

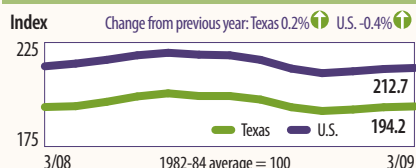


Texas by the Numbers

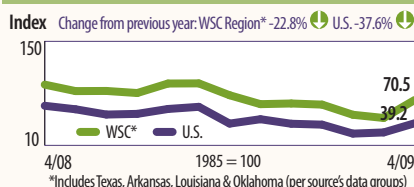
Key Texas Economic Indicators

Between April 2008 and April 2009, the U.S. economy shed about 5.2 million jobs, a 3.8 percent decline. Texas lost 106,500 jobs between March 2008 and March 2009, for a 1.0 percent decrease in nonfarm employment. Total state employment in March (10.48 million) fell by 47,100 jobs from February. Over the last year, Texas added jobs in educational and health services, leisure and hospitality, mining and logging and government.

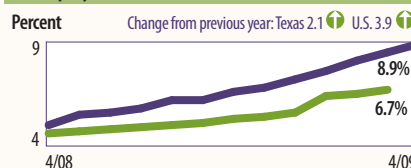
Consumer Price Index



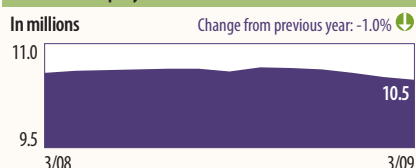
Consumer Confidence Index



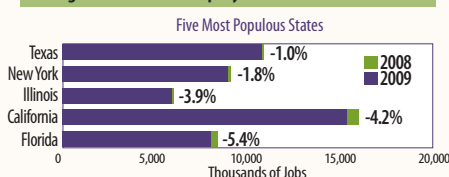
Unemployment Rate



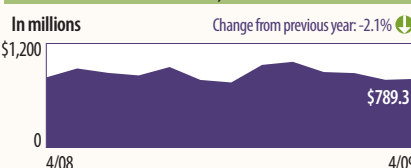
Nonfarm Employment



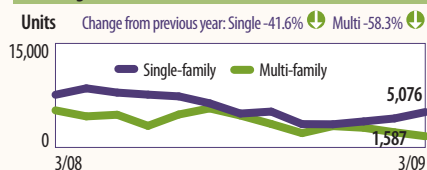
Change in Nonfarm Employment



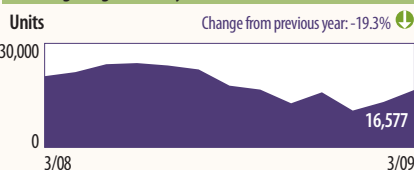
State Sales Tax Collections, Retail Establishments



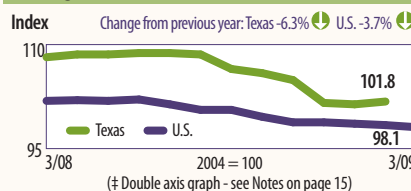
Housing Permits



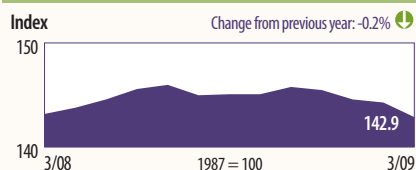
Existing Single-Family Home Sales



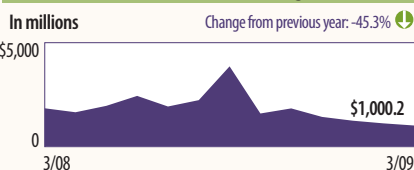
Leading Economic Indicators Index



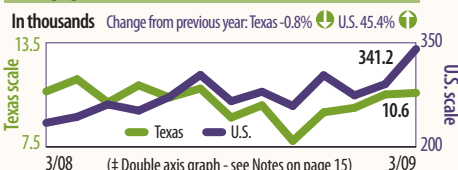
Industrial Production Index



Contract Value, Non-Residential Building Construction



Mortgage Foreclosures



Texas Production and Consumption Indicators

	Crude Oil Production	Natural Gas Production	Active Oil & Gas Drilling Rigs	Motor Fuels Taxed		Median Sale Price, Existing Single-family Home	Auto Sales	Cigarettes Taxed
	Value	Value	Units	Gasoline	Diesel	Dollars	Net Value	Packages of 20
Date	(Millions)	(Millions)		(Millions of Gallons)			(Millions)	(Millions)
2006	\$19,657.5	\$19,852.1	746	11,372.8	3,731.6	\$143,100	\$45,756.2	1,280.2
2007	21,850.3	22,968.4	834	11,624.8	3,886.9	147,500	48,500.6	1,085.8
Feb-08	2,334.0	2,228.7	866	954.2	343.2	142,500	3,840.8	80.2
Mar-08	2,724.7	2,712.2	881	940.6	324.1	146,800	3,940.0	79.1
Apr-08	2,818.8	2,807.9	887	1,010.4	281.1	146,700	3,957.8	90.5
May-08	3,573.5	3,442.6	906	975.8	343.1	150,600	3,791.7	98.3
Jun-08	3,394.2	3,661.8	923	1,018.3	331.5	154,700	4,051.0	89.6
Jul-08	3,518.2	4,160.0	920	954.0	321.3	152,900	4,148.3	93.3
Aug-08	3,046.5	2,991.0	934	982.3	342.5	151,500	3,829.4	80.9
Sept-08	2,606.7	2,270.6	946	1,054.7	248.6	144,900	3,727.2	88.9
Oct-08	2,059.4	2,144.5	925	852.3	377.9	142,200	3,317.6	98.6
Nov-08	1,493.4	1,713.9	899	1,018.0	343.5	137,200	2,862.9	85.3
Dec-08	1,026.7	1,871.5	826	963.2	283.5	140,600	2,941.7	99.3
Jan-09	989.4	1,851.2	701	1,023.2	294.7	131,300	3,022.6	73.0
Feb-09	838.3	1,136.6	574	965.3	291.5	137,900	2,923.8	77.0
Mar-09	803.0		445	916.6	281.8	139,700	2,892.3	86.4
Apr-09			393	1,019.0	305.7			77.5

March Cash Condition¹

(Amounts in millions)	General Revenue	Other Funds	Total Cash
Beginning Balance April 1, 2009	\$7,323.8	\$21,498.1	\$28,821.9
Revenue/Expenditures			
Revenue	6,309.2	2,278.0	8,587.2
Expenditures	5,663.0	2,140.1	7,803.1
Net Income (outgo)	\$646.2	\$137.9	\$784.1
Net Interfund Transfers and Investment Transactions	\$-429.8	\$563.5	\$133.7
Total Transactions	216.4	701.4	917.8
End Cash Balance April 30, 2009²	\$7,540.2	\$22,199.5	\$29,739.7

¹ Cash stated is from the Comptroller's Uniform Statewide Accounting System (USAS) and will vary from the amounts reflected in the cash accounts of the Treasury Operations Division of the Comptroller's office due to timing differences. Net amounts shown (less refunds) exclude funds that are authorized to be held outside the State Treasury and are not processed through USAS. Suspense and Trust Funds are included, as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

² The ending General Revenue Fund balance includes \$5.8 billion derived from the sale of cash management notes.

State Revenue/All Funds¹

	Monthly Revenue	Fiscal Year-to-Date Sept. 2008-Apr. 2009	
(Amounts in millions)	Apr. 2009	Revenue	% Change YTD/YTD
Tax Collections by Major Tax			
Sales Tax	\$1,660.8	\$14,242.4	1.3%
Oil Production Tax	52.3	616.0	-26.5
Natural Gas Production Tax	-5.0	1,224.4	-20.2
Motor Fuel Taxes	259.7	2,007.7	-2.9
Motor Vehicle Sales Tax	181.4	1,748.9	-21.5
Franchise Tax	176.2	89.3	-42.8
Cigarette & Tobacco Taxes	114.6	1,009.6	9.7
Alcoholic Beverages Tax	69.2	527.6	3.0
Insurance Companies Tax	39.9	785.6	-9.8
Utility Taxes ²	103.7	354.4	0.9
Inheritance Tax	-0.1	2.5	-43.9
Hotel/Motel Tax	31.1	230.2	-2.1
Other Taxes ³	590.2	849.5	-11.0
Total Tax Collections	\$3,273.9	\$23,688.1	-4.2%
Revenue by Receipt Type			
Tax Collections	\$3,273.9	\$23,688.1	-4.2%
Federal Income	3,160.3	20,329.8	19.8
Interest and Investment Income	184.3	1,249.3	-39.1
Licenses, fees, permits, fines,	548.2	4,775.3	-39.2
Contributions to Employee Benefits	457.7	3,308.1	7.0
Sales of Goods and Services	44.5	289.1	-5.9
Land Income	46.1	613.5	-5.2
Net Lottery Proceeds ⁴	154.9	1,055.0	-3.7
Other Revenue Sources	717.3	5,355.9	12.6
Total Net Revenue	\$8,587.3	\$60,663.9	-1.4%

¹ Excludes revenues for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Includes the utility, gas utility administration and public utility gross receipts taxes.

³ Includes the cement and sulphur taxes and other occupation and gross receipt taxes not separately identified.

⁴ Gross sales less retailer commissions and the smaller prizes paid by retailers.

Notes:

Crude oil and natural gas figures are net taxable values. Gasoline gallons include gasoline. Auto sale values are calculated from motor vehicle taxes collected on new and used vehicle sales. All figures are seasonally adjusted, except for sales tax collections, rigs, consumer price, housing permits/sales/prices, and consumer confidence. Figures are based on the most recent available data. Annual figures are for calendar years. If Double axis graphs. Graphs with two vertical axes show values for Texas on the left and values for the U.S. on the right. This method shows trends more clearly over the last year when data values are substantially different at state and national levels.]

Sources:

Key Texas Economic Indicators:

Consumer Price Index, Change in Nonfarm Employment: U.S. Bureau of Labor Statistics
Consumer Confidence Index: The Conference Board
Leading Economic Indicators Index: Texas Comptroller of Public Accounts, The Conference Board
Unemployment Rate: Texas Workforce Commission, U.S. Bureau of Labor Statistics
Nonfarm Employment: Texas Workforce Commission
State Sales Tax Collections, Retail Establishments: Texas Comptroller of Public Accounts
Housing Permits, Existing Single-family Home Sales: The Real Estate Center at Texas A&M University

Industrial Production Index: Federal Reserve Bank of Dallas
Contract Value, Non-Residential Building Construction: McGraw-Hill
Mortgage Foreclosures: RealtyTrac

Texas Production and Consumption Indicators:

Crude Oil, Natural Gas, Motor Fuels, Auto Sales, Cigarettes: Texas Comptroller of Public Accounts
Active Oil & Gas Drilling Rigs: Baker-Hughes Incorporated
Median Sale Price, Existing Single-family Home: The Real Estate Center at Texas A&M University

State Expenditures/All Funds¹

(Amounts in millions)	Monthly Expenditures	Fiscal Year-to-Date Sept. 2008-Apr. 2009	
	Apr. 2009	Expendi- tures	% Change YTD/YTD
By Object			
Salaries and Wages	\$864.6	\$7,060.5	6.1%
Employee Benefits/ Teacher Retirement Contribution	782.0	5,934.8	5.4
Supplies and Materials	67.4	627.1	3.0
Other Expenditures	291.9	2,168.7	20.7
Public Assistance Payments	3,377.7	25,104.1	17.2
Intergovernmental Payments:			
Foundation School Program Grants	919.0	13,929.2	-0.3
Other Public Education Grants	1,348.3	3,145.1	2.3
Grants to Higher Education	105.4	781.5	14.0
Other Grants	304.5	2,263.3	53.1
Travel	13.8	110.5	16.0
Professional Services and Fees	135.8	1,297.7	-1.8
Payment of Interest/Debt Service	9.4	644.2	11.2
Highway Construction and Maintenance	302.9	2,727.1	-20.1
Capital Outlay	36.0	307.9	0.9
Repairs and Maintenance	61.4	462.3	9.1
Communications and Utilities	34.1	283.3	-14.6
Rentals and Leases	21.1	189.0	8.9
Claims and Judgments	8.7	62.1	-19.3
Cost of Goods Sold	33.6	554.1	1.6
Printing and Reproduction	4.5	33.7	14.4
Total Net Expenditures	\$7,803.1	\$67,686.2	8.1%
By Function			
General Government			
Executive	\$649.1	\$4,138.5	10.4
Legislative	12.7	92.4	11.1
Judicial	18.8	160.6	1.1
Subtotal	680.6	4,391.6	10.0
Health and Human Services	3,289.5	24,355.7	19.1
Public Safety and Corrections	376.9	3,359.2	21.7
Transportation	481.9	4,428.4	-12.4
Natural Resources/Recreational Services	145.3	1,429.4	9.1
Education	2,035.5	23,105.4	1.4
Regulatory Agencies	22.0	233.8	20.5
Employee Benefits	680.2	5,111.7	4.4
Debt Service—Interest	9.4	644.2	11.2
Capital Outlay	36.0	307.9	0.9
Lottery Winnings Paid ²	45.9	319.2	10.9
Total Net Expenditures	\$7,803.1	\$67,686.2	8.1%

¹ Excludes expenditures for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Does not include payments made by retailers. Previously shown as "Other expenditures."

Some revenue and expenditure items have been reclassified, changing year-to-date totals. The ending cash balance is not affected because changes reflected in "total net revenues" and "total net expenditures" offset changes in "net interfund transfers and investments transactions" in the cash condition table.

Revenues and expenditures are reported for the most recent month available and as a running total for the current fiscal year-to-date. In addition, year-to-date figures are compared with the same period in the last fiscal year. These comparisons are reported as percentage changes, which may be positive or negative (shown by a minus sign).

Trust fund transactions are included within revenues and expenditures in the "all funds" presentations. Trust funds are not available to the state for general spending.



FISCAL NOTES is one of the ways the Comptroller's office strives to assist taxpayers and the people of Texas. The newsletter is a by-product of the Comptroller's constitutional responsibilities to monitor the state's economy and to estimate state government revenues.

FISCAL NOTES also provides a monthly summary of the financial statements for the State of Texas.

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Texas Comptroller of Public Accounts
Publication #96-369,
May 2009

FISCAL NOTES

A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts

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Texas Metros Dominate Best Large Cities for Job Growth

Five Texas metropolitan areas dominated a list of the top large cities for job growth in a report published by *NewGeography.com*.

1. Austin-Round Rock
2. Houston-Sugar Land-Baytown
3. San Antonio
4. Fort Worth-Arlington
5. Dallas-Plano-Irving
6. Seattle-Bellevue-Everett, WA
7. Salt Lake City, UT
8. Raleigh-Cary, NC
9. Oklahoma City, OK
10. Portland-Vancouver-Beaverton, OR-WA